

TOWN OF FAIRHAVEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

Town of Fairhaven, Massachusetts

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MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Fairhaven, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fairhaven, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

We did not audit the Fairhaven Contributory Retirement System (Pension Trust Fund) at December 31, 2012 and for the year then ended (a component unit of the Town of Fairhaven). Those statements and required supplementary information were audited by the Commonwealth of Massachusetts Public Employee Retirement Administration Commission (PERAC), in accordance with accounting and management standards established by PERAC in Regulation 840 CMR25.00.

Opinions

In our opinion, and the report of the PERAC auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fairhaven, Massachusetts, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial

statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson, Heath + Company P.C.

Andover, Massachusetts
February 27, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Fairhaven, Massachusetts, we offer readers this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2013.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer, sewer digester, and water activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer and water operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, sewer digester, and water operations, all of which are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- At the end of the current fiscal year, total assets exceeded liabilities by \$121,571,280 (i.e., total net position), a change of \$9,589,715 in comparison to the prior year.
- At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$5,840,301, a change of \$(8,556,365) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,789,126, a change of \$(98,491) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the end of the current fiscal year was \$16,490,980 a change of \$(1,501,124) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 30,410	\$ 30,414	\$ 11,156	\$ 11,611	\$ 41,566	\$ 42,025
Capital assets	<u>95,275</u>	<u>76,880</u>	<u>31,069</u>	<u>30,603</u>	<u>126,344</u>	<u>107,483</u>
Total assets	125,685	107,294	42,225	42,214	167,910	149,508
Current liabilities	16,949	8,890	1,651	1,493	18,600	10,383
Noncurrent liabilities	<u>21,100</u>	<u>20,954</u>	<u>6,639</u>	<u>6,189</u>	<u>27,739</u>	<u>27,143</u>
Total liabilities	38,049	29,844	8,290	7,682	46,339	37,526
Net position:						
Net investment in capital assets	75,773	62,613	24,349	24,803	100,122	87,416
Restricted	7,211	6,639	-	-	7,211	6,639
Unrestricted	<u>4,652</u>	<u>8,198</u>	<u>9,586</u>	<u>9,729</u>	<u>14,238</u>	<u>17,927</u>
Total net position	<u>\$ 87,636</u>	<u>\$ 77,450</u>	<u>\$ 33,935</u>	<u>\$ 34,532</u>	<u>\$ 121,571</u>	<u>\$ 111,982</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,299	\$ 3,766	\$ 5,249	\$ 5,368	\$ 9,548	\$ 9,134
Operating grants and contributions	27,531	17,608	-	-	27,531	17,608
Capital grants and contributions	1,019	51	9	2,700	1,028	2,751
General revenues:						
Property taxes	23,572	22,256	-	-	23,572	22,256
Excises	1,635	1,749	-	-	1,635	1,749
Penalties and interest on taxes	266	401	-	-	266	401
Grants and contributions not restricted to specific programs	2,646	2,951	-	-	2,646	2,951
Investment income	277	7	17	7	294	14
Other	365	397	-	-	365	397
Total revenues	<u>61,610</u>	<u>49,186</u>	<u>5,275</u>	<u>8,075</u>	<u>66,885</u>	<u>57,261</u>
Expenses:						
General government	3,131	3,335	-	-	3,131	3,335
Public safety	8,570	8,887	-	-	8,570	8,887
Education	32,352	34,192	-	-	32,352	34,192
Public works	4,272	4,300	-	-	4,272	4,300
Human services	1,534	1,526	-	-	1,534	1,526
Culture and recreation	1,146	1,423	-	-	1,146	1,423
Interest on long-term debt	544	586	-	-	544	586
Intergovernmental	422	366	-	-	422	366
Sewer	-	-	3,312	3,663	3,312	3,663
Sewer Digester	-	-	1	-	1	-
Water	-	-	2,012	1,897	2,012	1,897
Total expenses	<u>51,971</u>	<u>54,615</u>	<u>5,325</u>	<u>5,560</u>	<u>57,296</u>	<u>60,175</u>
Change in net position before transfers	9,639	(5,429)	(50)	2,515	9,589	(2,914)
Transfers in (out)	<u>547</u>	<u>567</u>	<u>(547)</u>	<u>(567)</u>	<u>-</u>	<u>-</u>
Change in net position	10,186	(4,862)	(597)	1,948	9,589	(2,914)
Net position - beginning of year (as restated)	<u>77,450</u>	<u>82,312</u>	<u>34,532</u>	<u>32,584</u>	<u>111,982</u>	<u>114,896</u>
Net position - end of year	<u>\$ 87,636</u>	<u>\$ 77,450</u>	<u>\$ 33,935</u>	<u>\$ 34,532</u>	<u>\$ 121,571</u>	<u>\$ 111,982</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the end of the most recent fiscal year, total net position was \$121,571,280, a change of \$9,589,715 from the prior year.

The largest portion of net position \$100,122,220 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position totaling \$7,210,810 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$14,238,250 may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$10,186,532. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (911,699)
Wood Elementary School construction fund change in fund balance	(7,769,632)
Internal service fund operations	921,407
Capital asset acquisitions	20,646,914
Depreciation expense in excess of debt service principal paydown	(470,874)
Increase in OPEB liability	(2,184,259)
Other	<u>(45,325)</u>
Total	<u>\$ 10,186,532</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(596,817). Key elements of this change are as follows:

Sewer fund operations	\$ (750,965)
Sewer digester fund operations	194,488
Water operations	<u>(40,340)</u>
Total	<u>\$ (596,817)</u>

The change in net position of the sewer fund resulted primarily from depreciation expense in excess of debt principal payments.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$5,840,301, a change of \$(8,556,365) in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance	\$ (911,699)
Wood Elementary School construction fund change in fund balance	(7,769,632)
Nonmajor governmental funds change in fund balance	<u>124,966</u>
Total	<u><u>\$ (8,556,365)</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,789,126 while total fund balance was \$8,174,296. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 5,789,126	\$ 5,887,617	\$ (98,491)	12.4%
Total fund balance	\$ 8,174,296	\$ 9,085,995	\$ (911,699)	17.5%

⁽¹⁾ Includes general stabilization fund. Prior year balance restated to reflect reclassification from committed to unassigned.

The total fund balance of the general fund changed by \$(911,699) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (2,520,909)
Revenues in excess of budget	1,252,521
Expenditures less than budget	678,086
Expenditure timing differences	(375,135)
Change in stabilization	63,188
Other	<u>(9,450)</u>
Total	<u><u>\$ (911,699)</u></u>

Included in the total general fund balance is the Town's general stabilization account with the following balance:

	<u>6/30/13</u>	<u>6/30/12</u>	<u>Change</u>
General stabilization	\$ 2,700,968	\$ 2,637,780	\$ 63,188

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$9,585,871 a change of \$(143,015) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$195,714. Major reasons for these amendments include:

- \$173,747 to fund additional salaries/operating expenses for various departments and to pay unpaid prior years bills.
- \$13,367 to fund labor contracts.
- \$5,000 to fund a town government study committee.
- \$3,600 to fund Union Wharf building repairs.

Of this increase, \$13,367 was funded by the tax levy, \$36,739 was funded by transfers from other funds, and \$145,608 was funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$126,343,213 (net of accumulated depreciation), a change of \$18,859,950 from the prior year. This investment in capital assets includes land, construction in progress, buildings and system, improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included ongoing school building construction, water and wastewater infrastructure improvements, and the purchase of various public safety and highway department equipment and vehicles.

Credit rating. The Town of Fairhaven maintains an “Aa2” rating from Moody’s for general obligation debt.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$16,490,980 all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Director of Finance/Treasurer
Town of Fairhaven
40 Center Street
Fairhaven, Massachusetts 02719

TOWN OF FAIRHAVEN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 10,205,474	\$ 7,491,752	\$ 17,697,226
Investments	8,659,468	-	8,659,468
Deposits held by others	1,186,600	-	1,186,600
Receivables, net of allowance for uncollectibles:			
Property taxes	494,432	-	494,432
Excises	212,642	-	212,642
User fees	-	659,944	659,944
Intergovernmental	2,390,520	-	2,390,520
Departmental and other	1,044,209	-	1,044,209
Betterments	8,820	297,581	306,401
Other assets	21,278	-	21,278
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,077,240	-	1,077,240
Intergovernmental	5,017,632	-	5,017,632
Betterments	44,119	2,707,251	2,751,370
Other assets	48,575	-	48,575
Capital assets:			
Land and construction in progress	43,564,852	13,309,101	56,873,953
Other capital assets, net of accumulated depreciation	51,709,767	17,759,493	69,469,260
TOTAL ASSETS	125,685,628	42,225,122	167,910,750
LIABILITIES			
Current:			
Warrants and accounts payable	2,976,303	288,579	3,264,882
Accrued liabilities	1,477,702	50,024	1,527,726
Retainage payable	923,952	-	923,952
Tax refunds payable	446,421	-	446,421
Notes payable	9,000,000	794,783	9,794,783
Other current liabilities	150,103	41,956	192,059
Current portion of long-term liabilities:			
Bonds payable	1,851,297	472,524	2,323,821
Landfill post-closure	25,000	-	25,000
Accrued employee benefits	47,124	3,420	50,544
Special termination benefits	50,840	-	50,840
Noncurrent:			
Bonds payable, net of current portion	8,715,024	5,452,135	14,167,159
Landfill post-closure, net of current portion	400,000	-	400,000
Accrued employee benefits, net of current portion	895,356	64,965	960,321
Special termination benefits, net of current portion	322,115	-	322,115
Other post-employment benefits	10,768,135	1,121,712	11,889,847
TOTAL LIABILITIES	38,049,372	8,290,098	46,339,470
NET POSITION			
Net investment in capital assets	75,773,067	24,349,153	100,122,220
Restricted for:			
Grants and other statutory restrictions	4,824,075	-	4,824,075
Permanent funds:			
Nonexpendable	2,102,978	-	2,102,978
Expendable	283,757	-	283,757
Unrestricted	4,652,379	9,585,871	14,238,250
TOTAL NET POSITION	\$ 87,636,256	\$ 33,935,024	\$ 121,571,280

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 3,130,920	\$ 607,435	\$ 293,000	\$ -	\$ (2,230,485)	\$ -	\$ (2,230,485)
Public safety	8,569,875	1,311,490	338,792	-	(6,919,593)	-	(6,919,593)
Education	32,352,098	2,112,610	24,605,035	-	(5,634,453)	-	(5,634,453)
Public works	4,271,234	97,351	1,268,064	1,018,950	(1,886,869)	-	(1,886,869)
Health and human services	1,533,597	2,152	942,758	-	(588,687)	-	(588,687)
Culture and recreation	1,146,555	167,639	83,843	-	(895,073)	-	(895,073)
Interest	543,950	-	-	-	(543,950)	-	(543,950)
Intergovernmental	422,180	-	-	-	(422,180)	-	(422,180)
Total Governmental Activities	51,970,409	4,298,677	27,531,492	1,018,950	(19,121,290)	-	(19,121,290)
Business-Type Activities:							
Sewer	3,311,808	3,026,914	-	8,741	-	(276,153)	(276,153)
Sewer Digester	1,512	-	-	-	-	(1,512)	(1,512)
Water	2,011,828	2,221,948	-	-	-	210,120	210,120
Total Business-Type Activities	5,325,148	5,248,862	-	8,741	-	(67,545)	(67,545)
Total	\$ 57,295,557	\$ 9,547,539	\$ 27,531,492	\$ 1,027,691	(19,121,290)	(67,545)	(19,188,835)
General Revenues and Transfers:							
Property taxes					23,572,079	-	23,572,079
Excises					1,634,792	-	1,634,792
Penalties, interest and other taxes					265,847	-	265,847
Grants and contributions not restricted to specific programs					2,645,845	-	2,645,845
Investment income					276,826	17,386	294,212
Miscellaneous					365,775	-	365,775
Transfers, net					546,658	(546,658)	-
Total general revenues and transfers					29,307,822	(529,272)	28,778,550
Change in Net Position					10,186,532	(596,817)	9,589,715
Net Position:							
Beginning of year, as restated					77,449,724	34,531,841	111,981,565
End of year					\$ 87,636,256	\$ 33,935,024	\$ 121,571,280

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	General Fund	Wood Elementary School Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 4,020,240	\$ 1,101,194	\$ 3,715,793	\$ 8,837,227
Investments	5,922,282	-	2,737,186	8,659,468
Receivables:				
Property taxes	1,731,224	-	15,549	1,746,773
Excises	303,503	-	-	303,503
Intergovernmental	65,313	523,776	2,773,620	3,362,709
Departmental and other	-	-	1,044,209	1,044,209
Betterments	-	-	52,939	52,939
Other assets	5,085	-	-	5,085
TOTAL ASSETS	\$ 12,047,647	\$ 1,624,970	\$ 10,339,296	\$ 24,011,913
LIABILITIES				
Warrants payable	\$ 847,972	\$ 999,111	\$ 260,280	\$ 2,107,363
Accrued liabilities	1,015,034	-	18,670	1,033,704
Retainage payable	-	923,952	-	923,952
Notes payable	-	9,000,000	-	9,000,000
Other liabilities	150,103	-	-	150,103
TOTAL LIABILITIES	2,013,109	10,923,063	278,950	13,215,122
DEFERRED INFLOWS OF RESOURCES	1,860,242	-	3,096,248	4,956,490
FUND BALANCES				
Nonspendable	-	-	2,102,978	2,102,978
Restricted	-	-	5,107,921	5,107,921
Committed	142,586	-	-	142,586
Assigned	2,242,584	-	-	2,242,584
Unassigned	5,789,126	(9,298,093)	(246,801)	(3,755,768)
TOTAL FUND BALANCES	8,174,296	(9,298,093)	6,964,098	5,840,301
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 12,047,647	\$ 1,624,970	\$ 10,339,296	\$ 24,011,913

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2013

Total governmental fund balances	\$ 5,840,301
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	95,274,619
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	4,244,106
• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in governmental funds.	4,045,443
• Internal service funds are used by management to account for health and dental insurance activities. The assets and liabilities of the internal service funds are included with governmental activities in the Statement of Net Assets.	1,301,799
• Deferred debt expense for refunding is net of amortization on the Statement of Net Assets, whereas all debt expense is reported when paid in the governmental funds.	64,769
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(59,890)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(10,566,321)
Landfill post-closure	(425,000)
Accrued employee benefits	(942,480)
Special termination benefits	(372,955)
Other post-employment benefits	(10,768,135)
Net position of governmental activities	\$ 87,636,256

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Wood Elementary School Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 23,283,619	\$ -	\$ 312,617	\$ 23,596,236
Excises	1,610,343	-	-	1,610,343
Penalties, interest and other taxes	265,458	-	389	265,847
Charges for services	2,220,195	-	1,630,572	3,850,767
Intergovernmental	16,230,863	10,755,170	4,047,765	31,033,798
Licenses and permits	397,217	-	-	397,217
Fines and forfeitures	6,565	-	-	6,565
Investment income	38,574	-	236,744	275,318
Contributions	-	-	563,451	563,451
Miscellaneous	365,776	-	-	365,776
Total Revenues	44,418,610	10,755,170	6,791,538	61,965,318
Expenditures:				
Current:				
General government	1,868,638	-	775,217	2,643,855
Public safety	5,470,792	-	398,695	5,869,487
Education	24,426,146	-	2,610,451	27,036,597
Public works	2,847,922	-	277,276	3,125,198
Health and human services	1,171,059	-	215,543	1,386,602
Culture and recreation	699,905	-	264,482	964,387
Employee benefits	7,597,086	-	-	7,597,086
Debt service	2,323,822	-	-	2,323,822
Intergovernmental	422,180	-	-	422,180
Capital outlay	-	18,783,197	915,930	19,699,127
Total Expenditures	46,827,550	18,783,197	5,457,594	71,068,341
Excess (deficiency) of revenues over expenditures	(2,408,940)	(8,028,027)	1,333,944	(9,103,023)
Other Financing Sources (Uses):				
Transfers in	1,584,860	258,395	87,619	1,930,874
Transfers out	(87,619)	-	(1,296,597)	(1,384,216)
Total Other Financing Sources (Uses)	1,497,241	258,395	(1,208,978)	546,658
Change in fund balance	(911,699)	(7,769,632)	124,966	(8,556,365)
Fund Equity, at Beginning of Year	9,085,995	(1,528,461)	6,839,132	14,396,666
Fund Equity, at End of Year	\$ 8,174,296	\$ (9,298,093)	\$ 6,964,098	\$ 5,840,301

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

Net changes in fund balances - total governmental funds	\$ (8,556,365)																
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay purchases</td><td style="text-align: right;">20,646,914</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(2,252,171)</td></tr> </table> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <div style="text-align: right;">654,819</div> Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <div style="text-align: right;">(1,011,361)</div> The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Repayments of debt</td><td style="text-align: right;">1,781,297</td></tr> <tr> <td>Deferred debt amortization</td><td style="text-align: right;">(16,193)</td></tr> </table> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">14,768</div> Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table> <tr> <td>Landfill post-closure</td><td style="text-align: right;">25,000</td></tr> <tr> <td>Accrued employee benefits</td><td style="text-align: right;">115,602</td></tr> <tr> <td>Special termination benefits</td><td style="text-align: right;">47,074</td></tr> <tr> <td>Other post-employment benefits</td><td style="text-align: right;">(2,184,259)</td></tr> </table> Internal service funds are used by management to account for health and dental insurance activities. The net activity of internal service funds is reported with governmental activities in the Statement of Net Position. <div style="text-align: right;"><u>921,407</u></div> 	Capital outlay purchases	20,646,914	Depreciation	(2,252,171)	Repayments of debt	1,781,297	Deferred debt amortization	(16,193)	Landfill post-closure	25,000	Accrued employee benefits	115,602	Special termination benefits	47,074	Other post-employment benefits	(2,184,259)	
Capital outlay purchases	20,646,914																
Depreciation	(2,252,171)																
Repayments of debt	1,781,297																
Deferred debt amortization	(16,193)																
Landfill post-closure	25,000																
Accrued employee benefits	115,602																
Special termination benefits	47,074																
Other post-employment benefits	(2,184,259)																
Change in net position of governmental activities	\$ <u>10,186,532</u>																

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 23,253,135	\$ 23,266,502	\$ 23,266,502	\$ -
Excises	1,715,000	1,715,000	1,610,343	(104,657)
Penalties, interest and other taxes	302,404	302,404	265,458	(36,946)
Charges for services	1,509,110	1,509,110	2,220,195	711,085
Intergovernmental	11,107,219	11,107,219	11,669,312	562,093
Licenses and permits	283,000	283,000	397,217	114,217
Fines and forfeitures	15,000	15,000	6,565	(8,435)
Investment income	42,000	42,000	25,385	(16,615)
Miscellaneous	334,000	334,000	365,776	31,776
Transfers in	1,548,118	1,584,857	1,584,860	3
Use of free cash	2,124,501	2,270,109	2,270,109	-
Other sources	<u>250,800</u>	<u>250,800</u>	<u>250,800</u>	<u>-</u>
Total Revenues and Other Sources	42,484,287	42,680,001	43,932,522	1,252,521
Expenditures and Other Uses:				
General government	2,024,207	2,064,510	1,926,246	138,264
Public safety	5,515,095	5,552,749	5,479,988	72,761
Education	19,780,590	19,780,590	19,777,143	3,447
Public works	2,551,639	2,559,438	2,552,721	6,717
Health and human services	1,118,395	1,227,885	1,174,320	53,565
Culture and recreation	705,163	705,631	703,175	2,456
Employee benefits	7,980,998	7,980,998	7,597,332	383,666
Debt service	2,362,100	2,362,100	2,307,759	54,341
Intergovernmental	385,049	385,049	422,180	(37,131)
Transfers out	<u>61,051</u>	<u>61,051</u>	<u>61,051</u>	<u>-</u>
Total Expenditures and Other Uses	<u>42,484,287</u>	<u>42,680,001</u>	<u>42,001,915</u>	<u>678,086</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,930,607</u>	\$ <u>1,930,607</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Sewer Digester Fund	Water Fund	Total	Internal Service Fund
ASSETS					
Current:					
Cash and short-term investments	\$ 6,343,357	\$ -	\$ 1,148,395	\$ 7,491,752	\$ 1,368,247
Deposits held by others	-	-	-	-	1,186,600
Receivables, net of allowance for uncollectibles:					
User fees	395,063	-	264,881	659,944	-
Betterments	293,792	-	3,789	297,581	-
Total current assets	7,032,212	-	1,417,065	8,449,277	2,554,847
Noncurrent:					
Receivables, net of allowance for uncollectibles:					
Betterments	2,703,485	-	3,766	2,707,251	-
Capital assets:					
Land and construction in progress	2,211,272	9,730,000	1,367,829	13,309,101	-
Other capital assets, net of accumulated depreciation	14,919,860	-	2,839,633	17,759,493	-
Total noncurrent assets	19,834,617	9,730,000	4,211,228	33,775,845	-
TOTAL ASSETS	26,866,829	9,730,000	5,628,293	42,225,122	2,554,847
LIABILITIES					
Current:					
Accounts payable	112,739	-	175,840	288,579	868,940
Accrued liabilities	34,496	1,512	14,016	50,024	384,108
Notes payable	-	-	794,783	794,783	-
Other current liabilities	41,506	-	450	41,956	-
Current portion of long-term liabilities:					
Bonds payable	443,561	28,963	-	472,524	-
Accrued employee benefits	2,089	-	1,331	3,420	-
Total current liabilities	634,391	30,475	986,420	1,651,286	1,253,048
Noncurrent:					
Bonds payable, net of current portion	4,765,098	687,037	-	5,452,135	-
Accrued employee benefits, net of current portion	39,681	-	25,284	64,965	-
Other post-employment benefits	739,903	-	381,809	1,121,712	-
Total noncurrent liabilities	5,544,682	687,037	407,093	6,638,812	-
TOTAL LIABILITIES	6,179,073	717,512	1,393,513	8,290,098	1,253,048
NET POSITION					
Net investment in capital assets	11,922,473	9,014,000	3,412,680	24,349,153	-
Unrestricted	8,765,283	(1,512)	822,100	9,585,871	1,301,799
TOTAL NET POSITION	\$ 20,687,756	\$ 9,012,488	\$ 4,234,780	\$ 33,935,024	\$ 1,301,799

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Sewer Digester Fund	Water Fund	Total	Internal Service Fund
Operating Revenues:					
Charges for services	\$ 3,010,817	\$ -	\$ 2,206,666	\$ 5,217,483	\$ -
Employee and employer contributions	-	-	-	-	7,471,877
Other	16,097	-	15,282	31,379	-
Total Operating Revenues	3,026,914	-	2,221,948	5,248,862	7,471,877
Operating Expenses:					
Personnel services	972,993	-	550,101	1,523,094	-
Non-personnel services	995,323	-	351,587	1,346,910	-
Depreciation	1,120,075	-	115,241	1,235,316	-
Intergovernmental	-	-	994,899	994,899	-
Employee benefits	-	-	-	-	6,551,978
Total Operating Expenses	3,088,391	-	2,011,828	5,100,219	6,551,978
Operating Income (Loss)	(61,477)	-	210,120	148,643	919,899
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	8,741	-	-	8,741	-
Investment income	17,181	-	205	17,386	1,508
Interest expense	(223,417)	(1,512)	-	(224,929)	-
Total Nonoperating Revenues (Expenses), Net	(197,495)	(1,512)	205	(198,802)	1,508
Income (Loss) Before Transfers	(258,972)	(1,512)	210,325	(50,159)	921,407
Transfers:					
Transfers in	-	196,000	-	196,000	-
Transfers out	(491,993)	-	(250,665)	(742,658)	-
Total transfers in (out)	(491,993)	196,000	(250,665)	(546,658)	-
Change in Net Position	(750,965)	194,488	(40,340)	(596,817)	921,407
Net Position at Beginning of Year, as restated	21,438,721	8,818,000	4,275,120	34,531,841	380,392
Net Position at End of Year	\$ 20,687,756	\$ 9,012,488	\$ 4,234,780	\$ 33,935,024	\$ 1,301,799

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Sewer Digester Fund	Water Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>					
Receipts from customers and users	\$ 3,322,487	\$ -	\$ 2,193,116	\$ 5,515,603	\$ 7,655,063
Payments to vendors and employees	<u>(1,812,203)</u>	<u>(683,358)</u>	<u>(1,662,125)</u>	<u>(4,157,686)</u>	<u>(6,823,769)</u>
Net Cash Provided By (Used For) Operating Activities	1,510,284	(683,358)	530,991	1,357,917	831,294
<u>Cash Flows From Noncapital Financing Activities:</u>					
Intergovernmental revenue	8,741	157,806	-	166,547	-
Transfers in	-	196,000	-	196,000	-
Transfers out	<u>(491,993)</u>	<u>-</u>	<u>(250,665)</u>	<u>(742,658)</u>	<u>-</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	(483,252)	353,806	(250,665)	(380,111)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(252,539)	(640,155)	(807,830)	(1,700,524)	-
Proceeds from issuance of bonds and notes	-	1,276,054	794,783	2,070,837	-
Principal payments on bonds and notes	(435,827)	(716,000)	-	(1,151,827)	-
Interest expense	<u>(231,256)</u>	<u>(1,512)</u>	<u>-</u>	<u>(232,768)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(919,622)	(81,613)	(13,047)	(1,014,282)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	<u>17,181</u>	<u>-</u>	<u>205</u>	<u>17,386</u>	<u>1,508</u>
Net Cash Provided By Investing Activities	<u>17,181</u>	<u>-</u>	<u>205</u>	<u>17,386</u>	<u>1,508</u>
Net Change in Cash and Short-Term Investments	124,591	(411,165)	267,484	(19,090)	832,802
Cash and Short-Term Investments, Beginning of Year	<u>6,218,766</u>	<u>411,165</u>	<u>880,911</u>	<u>7,510,842</u>	<u>535,445</u>
Cash and Short-Term Investments, End of Year	<u>\$ 6,343,357</u>	<u>\$ -</u>	<u>\$ 1,148,395</u>	<u>\$ 7,491,752</u>	<u>\$ 1,368,247</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income (loss)	\$ (61,477)	\$ -	\$ 210,120	\$ 148,643	\$ 919,899
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	1,120,075	-	115,241	1,235,316	-
Changes in assets and liabilities:					
User fees	(34,915)	-	(32,348)	(67,263)	-
Betterments	340,850	-	3,665	344,515	-
Other assets	-	-	-	-	428,586
Accounts payable	43,292	(302,637)	138,011	(121,334)	(490,449)
Accrued liabilities	1,058	(380,721)	197	(379,466)	(26,742)
Other liabilities	<u>101,401</u>	<u>-</u>	<u>96,105</u>	<u>197,506</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,510,284</u>	<u>\$ (683,358)</u>	<u>\$ 530,991</u>	<u>\$ 1,357,917</u>	<u>\$ 831,294</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Pension Trust Fund (As of <u>December 31, 2012</u>)	Other Post- Employment Benefits <u>Trust Fund</u>	Private Purpose <u>Trust Fund</u>	Agency <u>Fund</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 1,218,503	\$ 663	\$ 439,229	\$ 446,198
Investments	40,436,904	55,111	61,511	-
Accounts receivable	<u>110,843</u>	<u>-</u>	<u>-</u>	<u>31,400</u>
Total Assets	41,766,250	55,774	500,740	477,598
<u>LIABILITIES AND NET POSITION</u>				
Warrants payable	-	-	-	34,057
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>435,141</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>477,598</u>
<u>NET POSITION</u>				
Total net position held in trust	\$ <u><u>41,766,250</u></u>	\$ <u><u>55,774</u></u>	\$ <u><u>500,740</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (For the Year Ended December 31, 2012)	Other Post- Employment Benefits Trust Fund	Private Purpose Trust Fund
Additions:			
Contributions:			
Employers	\$ 2,400,048	\$ -	\$ -
Plan members	948,669	-	-
Other	<u>177,287</u>	<u>-</u>	<u>22,810</u>
Total contributions	3,526,004	-	22,810
Investment Income (Loss):			
Interest income	-	4,807	1,787
Increase (decrease) in fair value of investments	5,071,578	-	52,482
Less: management fees	<u>(205,891)</u>	<u>-</u>	<u>-</u>
Net investment income (loss)	<u>4,865,687</u>	<u>4,807</u>	<u>54,269</u>
Total additions	8,391,691	4,807	77,079
Deductions:			
Benefit payments to plan members, beneficiaries, and other systems	3,564,477	-	-
Refunds to plan members	88,034	-	-
Administrative expenses	80,808	-	-
Other	<u>149,065</u>	<u>-</u>	<u>34,100</u>
Total deductions	<u>3,882,384</u>	<u>-</u>	<u>34,100</u>
Net increase (decrease)	4,509,307	4,807	42,979
Net position:			
Beginning of year	<u>37,256,943</u>	<u>50,967</u>	<u>457,761</u>
End of year	<u>\$ 41,766,250</u>	<u>\$ 55,774</u>	<u>\$ 500,740</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Fairhaven, Massachusetts (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

In the Fiduciary Funds: The Fairhaven Contributory Retirement System (the System) was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information for the System can be obtained by contacting the System located at Town of Fairhaven, 40 Center Street, Fairhaven, MA 02719.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Wood Elementary School Construction Fund* is used to account for all capital activities associated with ongoing construction at the LeRoy L. Wood Elementary School.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- The *Sewer Fund* is used to account for the Town's sewer enterprise fund operations.
- The *Sewer Digester Fund* is used to account for all activity associated with the Town's construction of an anaerobic digester to convert sewer waste to biogas to generate heat and electricity.
- The *Water Fund* is used to account for the Town's water enterprise fund operations.

The self-insured medical and dental claims trust is reported as an *Internal Service Fund* in the accompanying financial statements.

The *Pension Trust Fund* accounts for the activities of the Fairhaven Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *Other Post-Employment Benefits Trust Fund* is used to accumulate resources for future post-employment medical, dental, and life insurance benefits for retired employees and spouses or dependents of deceased Town employees.

The *Private-Purpose Trust Fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *Agency Fund* is custodial in nature and is used to account for funds held for others.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Town's trust funds consist of marketable securities, bonds, mutual funds, and certificates of deposit. Investments for the Contributory Retirement System (Pension Trust) consist of pooled investments in the State Pension Reserves Investment Trust (PRIT). Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2013 tax levy reflected an excess capacity of \$3,585.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type

activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$25,000 (machinery and equipment) or \$100,000 (land, buildings and improvements and infrastructure) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 - 50
Improvements	20 - 40
Infrastructure	30 - 60
Machinery and equipment	5 - 10

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year. The Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 44,418,610	\$ 46,827,550
Other financing sources/uses (GAAP Basis)	<u>1,584,860</u>	<u>87,619</u>
Subtotal (GAAP Basis)	46,003,470	46,915,169
Adjust tax revenue to accrual basis	(17,117)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(767,695)
Add end-of-year appropriation carryforwards from expenditures	-	392,560
Record use of free cash	2,270,109	-
Record use of overlay surplus	250,800	-
Reverse effect of non-budgeted State contributions	(4,545,488)	(4,545,488)
Reverse non-budgeted activity	<u>(29,252)</u>	<u>7,369</u>
Budgetary Basis	<u>\$ 43,932,522</u>	<u>\$ 42,001,915</u>

D. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2013:

Wood Elementary School Construction	\$ (9,298,093)
Non-Major Governmental Funds:	
Chapter 90 - Fort Street	(102,289)
Title I Grant	(82,461)
Police 911 Grant	(34,023)
Title IIA Grant	(22,801)
Bullet Proof Vest Grant	(3,449)
Chapter 90 - Howland Street	(1,441)
School Lunch	<u>(337)</u>
Total Non-Major Governmental Funds	<u>(246,801)</u>
Total	<u>\$ (9,544,894)</u>

The deficits in these funds will be eliminated through future departmental revenues, intergovernmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Neither the Town nor the Contributory Retirement System (System) have deposit policies for custodial credit risk.

As of June 30, 2013, \$11,843,534 of the Town's bank balance of \$19,905,496 was exposed to custodial credit risk as uninsured or uncollateralized.

As of December 31, 2012, the System reported cash and short-term investment balances totaling \$1,218,503.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for the Town's investments. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year-end</u>				<u>Not Rated</u>
			<u>AAA</u>	<u>A3</u>	<u>A1</u>	<u>BAA1</u>	
Certificates of deposits	\$ 4,428	N/A	\$ -	\$ -	\$ -	\$ -	\$ 4,428
Corporate bonds	370	N/A	-	203	127	40	-
Corporate equities	971	N/A	-	-	-	-	971
Mutual funds	2,440	N/A	-	-	-	-	2,440
Federal agency securities	<u>567</u>	N/A	<u>567</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 8,776</u>		<u>\$ 567</u>	<u>\$ 203</u>	<u>\$ 127</u>	<u>\$ 40</u>	<u>\$ 7,839</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

At December 31, 2012, the System maintained its investments in the State Investment Pool* with a fair value of \$40,436,904. This investment type is not rated.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the Town nor the System has policies for custodial credit risk.

All of the Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk with SIPC and Excess SIPC coverage.

As of December 31, 2012, all of the System's investments were exposed to custodial credit risk as uninsured and uncollateralized. The System manages this risk by holding all investments in the State pool (PRIT).

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows (in thousands):

Bristol County Savings Bank CD	\$2,500,000
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Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT fund. Because all of the System's investments are held in the PRIT Fund's investment pool, concentration of credit risk cannot be readily determined.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Neither the Town nor the System have a formal investment policy that limits investment maturities as a means of managing their exposure to fair value losses arising from changing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Debt Related Securities:			
Certificates of deposit	\$ 4,428	\$ 2,921	\$ 1,507
Corporate bonds	370	40	330
Federal agency securities	<u>567</u>	<u>-</u>	<u>567</u>
Total	<u>\$ 5,365</u>	<u>\$ 2,961</u>	<u>\$ 2,404</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Neither the Town nor the System has policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2013 consist of the following:

Real Estate		
2013	\$ 625,790	
2012	<u>5,676</u>	
		631,466
Personal Property		
2013	8,992	
2012	4,079	
Prior	<u>2,900</u>	
		15,971
Tax Liens		1,081,713
Deferred Taxes		2,074
Community Preservation		<u>15,549</u>
Total		<u>\$ 1,746,773</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 175,101	\$ -
Excises	\$ 90,861	\$ -
Sewer	\$ -	\$ 28,653
Water	\$ -	\$ 18,859

7. User Fee Receivables

This balance represents water and sewer usage charges, including unpaid charges that have been moved to tax bills and subsequently lienied.

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2013, as well as funding to be provided by the Massachusetts School Building Authority for reimbursement of approved school capital project expenditures.

9. Departmental and Other Receivables

This balance consists primarily of ambulance charges and homeowner loans funded by Community Development Block Grants.

10. Betterments

This balance represents Title 5, sewer, and water special assessment receivables.

11. Interfund Transfers

The Town reports interfund transfers between various funds. The following is an analysis of interfund transfers made in fiscal year 2013:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
Governmental:			
General fund	\$ 1,584,860	\$ 87,619	\$ 1,497,241
Wood Elementary School Construction	258,395	-	258,395
Nonmajor Funds:			
Special revenue funds	87,619	1,038,202	(950,583)
Capital project funds	-	258,395	(258,395)
Subtotal - Governmental	<u>1,930,874</u>	<u>1,384,216</u>	<u>546,658</u>
Business-Type:			
Sewer fund	-	491,993	(491,993)
Sewer Digester fund	196,000	-	196,000
Water fund	-	250,665	(250,665)
Subtotal - Business-Type	<u>196,000</u>	<u>742,658</u>	<u>(546,658)</u>
Total	<u>\$ 2,126,874</u>	<u>\$ 2,126,874</u>	<u>\$ -</u>

12. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 44,731	\$ -	\$ -	\$ 44,731
Improvements	9,738	150	-	9,888
Machinery and equipment	3,356	441	-	3,797
Infrastructure	<u>24,865</u>	<u>1,386</u>	<u>-</u>	<u>26,251</u>
Total capital assets, being depreciated	82,690	1,977	-	84,667
Less accumulated depreciation for:				
Buildings	(14,973)	(1,070)	-	(16,043)
Improvements	(3,426)	(340)	-	(3,766)
Machinery and equipment	(2,276)	(220)	-	(2,496)
Infrastructure	<u>(10,030)</u>	<u>(622)</u>	<u>-</u>	<u>(10,652)</u>
Total accumulated depreciation	<u>(30,705)</u>	<u>(2,252)</u>	<u>-</u>	<u>(32,957)</u>
Total capital assets, being depreciated, net	51,985	(275)	-	51,710
Capital assets, not being depreciated:				
Land	22,099	-	-	22,099
Construction in progress	<u>2,796</u>	<u>19,374</u>	<u>(704)</u>	<u>21,466</u>
Total capital assets, not being depreciated	<u>24,895</u>	<u>19,374</u>	<u>(704)</u>	<u>43,565</u>
Governmental activities capital assets, net	<u>\$ 76,880</u>	<u>\$ 19,099</u>	<u>\$ (704)</u>	<u>\$ 95,275</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and system	\$ 25,422	\$ 329	\$ -	\$ 25,751
Improvements other than buildings	18,186	278	-	18,464
Machinery and equipment	<u>3,397</u>	<u>-</u>	<u>-</u>	<u>3,397</u>
Total capital assets, being depreciated	47,005	607	-	47,612
Less accumulated depreciation for:				
Buildings and system	(19,465)	(677)	-	(20,142)
Improvements other than buildings	(6,682)	(410)	-	(7,092)
Machinery and equipment	<u>(2,471)</u>	<u>(148)</u>	<u>-</u>	<u>(2,619)</u>
Total accumulated depreciation	<u>(28,618)</u>	<u>(1,235)</u>	<u>-</u>	<u>(29,853)</u>
Total capital assets, being depreciated, net	18,387	(628)	-	17,759
Capital assets, not being depreciated:				
Land	989	-	-	989
Construction in progress	<u>11,227</u>	<u>1,701</u>	<u>(608)</u>	<u>12,320</u>
Total capital assets, not being depreciated	<u>12,216</u>	<u>1,701</u>	<u>(608)</u>	<u>13,309</u>
Business-type activities capital assets, net	<u>\$ 30,603</u>	<u>\$ 1,073</u>	<u>\$ (608)</u>	<u>\$ 31,068</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 90
Public safety	132
Education	1,143
Public works	778
Culture and recreation	<u>109</u>
Total depreciation expense - governmental activities	\$ <u>2,252</u>
Business-Type Activities:	
Sewer fund	\$ 1,120
Water fund	<u>115</u>
Total depreciation expense - business-type activities	\$ <u>1,235</u>

13. Warrants and Accounts Payable

Warrants payable represent 2013 expenditures paid by July 15, 2013. Accounts payable represent additional 2013 expenses paid after the close of the fiscal year.

14. Accrued Liabilities and Retainage Payable

Accrued liabilities consists primarily of year-end payroll and withholdings, self-insured health and dental claims incurred but not yet recorded, and accrued interest on long-term debt.

Retainage payable represents 5% of completed work and stored materials at June 30, 2013 for contractor work on the LeRoy Wood Elementary School construction project.

15. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

16. Notes Payable

The Town had the following notes outstanding at June 30, 2013:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/13</u>
<u>Governmental Activities:</u>				
Bond anticipation	1.00%	11/02/12	11/01/13	\$ 5,000,000
Bond anticipation	1.50%	04/18/13	11/01/13	<u>4,000,000</u>
				<u>\$ 9,000,000</u>
<u>Business-Type Activities:</u>				
Water - MWPAT loan	0.11%	04/15/13	12/31/14	\$ 580,783
Water - Bond anticipation	1.50%	04/18/13	11/01/13	<u>214,000</u>
Total				<u>\$ 794,783</u>

The following summarizes activity in notes payable during fiscal year 2013:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
<u>Governmental Activities:</u>				
Bond anticipation	\$ 2,000,000	\$ -	\$ (2,000,000)	\$ -
Bond anticipation	-	5,000,000	-	5,000,000
Bond anticipation	<u>-</u>	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>
	<u>\$ 2,000,000</u>	<u>\$ 9,000,000</u>	<u>\$ (2,000,000)</u>	<u>\$ 9,000,000</u>
<u>Business-Type Activities:</u>				
Sewer Digester - MWPAT loan	\$ 155,946	\$ 560,054	\$ (716,000)	\$ -
Water - MWPAT loan	-	580,783	-	580,783
Water - Bond anticipation	<u>-</u>	<u>214,000</u>	<u>-</u>	<u>214,000</u>
Total	<u>\$ 155,946</u>	<u>\$ 1,354,837</u>	<u>\$ (716,000)</u>	<u>\$ 794,783</u>

17. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/13
<u>Governmental Activities:</u>			
High school - refunding	06/15/17	2.1 - 5.0%	\$ 6,155,000
Title V MWPAT	08/01/18	0.0%	65,212
Elementary school MSBA	11/01/18	2.0%	892,286
Title V MWPAT	02/01/21	0.0%	53,823
Elementary school	12/15/24	3.0 - 4.4%	600,000
Elementary school	03/15/27	3.8 - 5.0%	<u>2,800,000</u>
Total Governmental Activities:			<u>\$ 10,566,321</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/13
<u>Business-Type Activities:</u>			
Sewer - Boulder Park MWPAT	08/01/18	4.0 - 5.2%	\$ 117,100
Sewer - Nancy St	12/15/24	3.0 - 4.4%	275,000
Sewer - Sconticut Neck	12/15/24	3.0 - 4.4%	3,720,000
Sewer - UV Disinfection	12/15/24	3.0 - 4.4%	920,000
Sewer - USDA Rural Development	02/02/26	4.5%	176,559
Sewer Digester	01/15/33	2.0%	<u>716,000</u>
Total Business-Type Activities:			<u>\$ 5,924,659</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2013 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,851,297	\$ 438,445	\$ 2,289,742
2015	1,916,293	365,286	2,281,579
2016	1,986,293	291,465	2,277,758
2017	2,066,293	201,081	2,267,374
2018	416,294	102,704	518,998
2019 - 2023	1,429,851	331,130	1,760,981
2024 - 2028	<u>900,000</u>	<u>84,388</u>	<u>984,388</u>
Total	<u>\$ 10,566,321</u>	<u>\$ 1,814,499</u>	<u>\$ 12,380,820</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 472,524	\$ 215,476	\$ 688,000
2015	475,269	203,565	678,834
2016	477,052	185,054	662,106
2017	478,772	166,356	645,128
2018	475,532	152,731	628,263
2019 - 2023	2,302,451	458,795	2,761,246
2024 - 2028	1,034,248	72,140	1,106,388
2029 - 2033	<u>208,811</u>	<u>12,708</u>	<u>221,519</u>
Total	<u>\$ 5,924,659</u>	<u>\$ 1,466,825</u>	<u>\$ 7,391,484</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/12	Additions	Reductions	Total Balance 6/30/13	Less Current Portion	Equals Long-Term Portion 6/30/13
<u>Governmental Activities</u>						
Bonds payable	\$ 12,348	\$ -	\$ (1,781)	\$ 10,567	\$ (1,851)	\$ 8,716
Landfill post-closure	450	-	(25)	425	(25)	400
Accrued employee benefits	1,058	12	(128)	942	(47)	895
Special termination benefits	420	-	(47)	373	(51)	322
Other post-employment benefits	8,584	3,558	(1,374)	10,768	-	10,768
Totals	<u>\$ 22,860</u>	<u>\$ 3,570</u>	<u>\$ (3,355)</u>	<u>\$ 23,075</u>	<u>\$ (1,974)</u>	<u>\$ 21,101</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 5,644	\$ 716	\$ (436)	\$ 5,924	\$ (472)	\$ 5,452
Accrued employee benefits	49	19	-	68	(3)	65
Other post-employment benefits	933	228	(39)	1,122	-	1,122
Totals	<u>\$ 6,626</u>	<u>\$ 963</u>	<u>\$ (475)</u>	<u>\$ 7,114</u>	<u>\$ (475)</u>	<u>\$ 6,639</u>

18. Landfill Post-closure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at its former landfill site for thirty years after closure.

The \$425,000 reported as landfill post-closure care liability at June 30, 2013 represents the estimated future monitoring costs of the Town's former landfill, which was closed and capped in 1999. These costs will be captured annually as part of the Town's operating budget. Actual costs may be higher than estimates due to inflation, changes in technology, or changes in regulations.

19. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2013:

	Fund Basis	
	Governmental Funds	
	General Fund	Nonmajor Governmental Funds
Deferred revenue - Property Taxes	\$ 1,556,740	\$ 15,549
Deferred revenue - Excises	303,502	-
Deferred revenue - Intergovernmental Grants	-	1,983,551
Deferred revenue - Departmental and Other	-	1,097,148
	<u>\$ 1,860,242</u>	<u>\$ 3,096,248</u>

20. **Restricted Net Position**

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

21. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2013:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes nonmajor governmental funds reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional

provisions or enabling legislation. This fund balance classification includes the unspent balance of capital projects funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose as established by management. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period, fund balance voted to be used for the subsequent year's budget, and funds reserved by Town management for future debt service payments.

Unassigned - Represents amounts that are available to be spent in future periods.

The following is a breakdown of the Town's fund balances at June 30, 2013:

	General Fund	Wood Elementary School Construction	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 2,102,978	\$ 2,102,978
Total Nonspendable	-	-	2,102,978	2,102,978
Restricted				
Bonded projects	-	-	90	90
Special revenue funds	-	-	4,824,074	4,824,074
Expendable permanent funds	-	-	283,757	283,757
Total Restricted	-	-	5,107,921	5,107,921
Committed				
Carryover articles	142,586	-	-	142,586
Total Committed	142,586	-	-	142,586
Assigned				
Encumbrances	249,973	-	-	249,973
Reserve for expenditure	1,956,724	-	-	1,956,724
Future debt service	35,887	-	-	35,887
Total Assigned	2,242,584	-	-	2,242,584
Unassigned				
Stabilization funds	2,700,968	-	-	2,700,968
Undesignated	3,088,158	-	-	3,088,158
Capital project fund deficits	-	(9,298,093)	-	(9,298,093)
Special revenue fund deficits	-	-	(246,801)	(246,801)
Total Unassigned	5,789,126	(9,298,093)	(246,801)	(3,755,768)
Total Fund Balance	\$ 8,174,296	\$ (9,298,093)	\$ 6,964,098	\$ 5,840,301

22. **Subsequent Events**

Debt

Subsequent to June 30, 2013, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Elementary School	\$ 9,064,000	2.5-4.0%	11/01/13	11/01/33
Boston Hill Water Tank	136,000	2.5-4.0%	11/01/13	11/01/22

23. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

24. **Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing pension benefits, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. As of July 1, 2012, the most recent actuarial

valuation date, approximately 229 retirees and 393 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides various medical, dental, and life insurance benefits to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 40% of premiums for medical, 50% of premiums for dental and 45% of premiums for life insurance. The Town contributes the remainder of the costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2013 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2013, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2012.

Annual Required Contribution (ARC)	\$ 3,713,688
Interest on net OPEB obligation	380,669
Adjustment to ARC	<u>(308,470)</u>
Annual OPEB cost	3,785,887
Contributions made	<u>(1,412,786)</u>
Increase in net OPEB obligation	2,373,101
Net OPEB obligation - beginning of year	<u>9,516,746</u>
Net OPEB obligation - end of year	<u><u>\$ 11,889,847</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three most recent years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 3,785,887	37.3%	\$ 11,889,847
2012	\$ 4,464,458	44.4%	\$ 9,516,746
2011	\$ 4,216,364	35.2%	\$ 7,034,686

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 39,723,469
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 39,723,469</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 12,680,019</u>
UAAL as a percentage of covered payroll	<u>313.3%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return, compensation increases of 3% per year, a general inflation assumption of 2.5% per annum, and an initial annual healthcare cost trend rate of 11%, which decreases to a 5% long-term rate for all healthcare benefits after eight years. The amortization of UAAL is a level dollar amortization over 30 years at the last valuation, with a remaining amortization period of 26 years at July 1, 2012.

In the July 1, 2012 actuarial valuation, the actuarial value of plan assets was \$0. However, in fiscal year 2012, the Town voted to accept the provisions of Massachusetts General Law Chapter 32B, Section 20 and established an Other Post-Employment Benefits Trust Fund for the purpose of funding future financial obligations of the Town for health insurance benefits of retirees. As of June 30, 2013, the total net position of this trust was \$55,774.

25. **Contributory Retirement System**

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Fairhaven Contributory Retirement System (FCRS), a cost-sharing, multiple-employer defined benefit PERS. Eligible employees must participate in the FCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at January 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	198
Terminated plan members entitled to but not yet receiving benefits	56
Active plan members	<u>269</u>
Total	<u>523</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2011	\$ 1,977,180	100%
2012	\$ 2,198,550	100%
2013	\$ 2,341,914	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Fairhaven Contributory Retirement System's most recent valuation. Amounts are presented in thousands.

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Liability</u> <u>(AAL) -</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as</u> <u>a Percent-</u> <u>age of</u> <u>Covered</u> <u>Payroll</u> <u>[(b-a)/c]</u>
01/01/12	\$ 37,257	\$ 58,769	\$ 21,512	63.4%	\$ 10,430	206.3%

The Schedule of Funding Progress following the Notes to Financial Statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the Entry Age Normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$21.5 million was calculated. The actuarial assumptions included an 8% investment return and projected salary increases of 4.75 – 5.25 % per year. Liabilities for cost of living increases have been assumed at an annual increase of 3% on the first \$12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets at the beginning of the prior plan year, assuming an 8% rate of return during that year and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2012, the unfunded actuarially accrued liability is being amortized over 20 years using a 4 % annual increasing basis.

E. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979 who have not elected to increase to 11% contribute an additional 2% of salary in excess of \$30,000.

The Town's current year covered payroll for teachers and administrators was unavailable.

In fiscal year 2013, the Commonwealth of Massachusetts contributed \$4,545,488 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

26. Self-Insurance

The Town self-insures against claims for employee health coverage. Annual estimated requirements for claims are provided in the Town's annual operating budget.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$75,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2013 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 410,850
Claims incurred/recognized in fiscal year 2013	6,551,978
Claims paid in fiscal year 2013	<u>(6,578,720)</u>
Claims liability, end of year	\$ <u><u>384,108</u></u>

27. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

28. Beginning Net Position Restatement

Government-Wide Financial Statements:

	Governmental <u>Activities</u>
As previously reported	\$ 78,113,986
Restate health claims expense	<u>(664,262)</u>
As restated	<u>\$ 77,449,724</u>

Fund Basis Financial Statements:

	Internal Service <u>Fund</u>
As previously reported	\$ 1,044,654
Restate health claims expense	<u>(664,262)</u>
As restated	<u>\$ 380,392</u>

29. Implementation of New GASB Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the Town is required to implement in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by requiring the Town to recognize, as a liability and expense, the Town's applicable portion of the Town of Fairhaven Contributory Retirement System's unfunded actuarially accrued liability.

**TOWN OF FAIRHAVEN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013**

**(Unaudited)
(Amounts Expressed in thousands)**

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/08	\$ 40,568	\$ 48,192	\$ 7,624	84.2%	\$ 10,125	75.3%
01/01/10	\$ 33,332	\$ 54,098	\$ 20,766	61.6%	\$ 10,027	207.1%
01/01/12	\$ 37,257	\$ 58,769	\$ 21,512	63.4%	\$ 10,430	206.3%

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 38,683	\$ 38,683	0.0%	\$ 16,098	240.3%
07/01/10	\$ -	\$ 48,462	\$ 48,462	0.0%	\$ 16,023	302.5%
07/01/12	\$ -	\$ 39,723	\$ 39,723	0.0%	\$ 12,680	313.3%

See Independent Auditors' Report.